FINANCIAL NEWS AND THE SITUATION

Instant Success of New Pennsylvania Loan and What May Come of It.

TURNS INVESTMENT TIDE

Reasons for Believing Revival of Bond Trading Is Near at Hand.

By WILLIAM JUSTUS BOIES.

This week is likely to be memorable in the financial history of 1920 as marking the turn in the bond market. It will recall a similar turn in events in April, 1908, when the offering of the Pennsylvania Railroad's forty year $40,000,000 4 per cent. loan at 96 caused the investing public to oversubscribe the issue twenty times. Half of the loan was placed abroad by the Rothschilds and the bonds were secured by the old consolidated mortgage of 1873. But the offering here and abroad was a pronounced success and led here to a genuine revival of bond buying, quickly reflected in the successful sale of several loans held in abeyance during the unsettlement which followed the financial strain of 1907. Several other attempts to excite public support have been made, but none was successful until the offering of this exceptionally high grade loan led to a change of sentiment and brought a multitude of investors into the bond market again.

1908 and 1920.

Will history repeat itself, and is it fair to assume that the instant success of last week's $50,000,000 sale of 7 per cent. ten year bonds by that railroad will lead to a genuine revival of investment buying on the scale of 1908? The extraordinary feature of the latest Pennsylvania loan is the 7 per cent. interest rate, the announcement of which was received with amazement by the financial community last week. When the Pennsylvania last brought out a $50,000,000 loan in December, 1918, the interest rate was only 5 per cent., and the public was glad to take the fifty year issue at 99¼. But since that issue was sold the world war has been fought and won for civilization at such a terrific cost as to cause an expansion of nearly $18,000,000,000 in the purchasing media of the United States, and the result is that commodity prices have attained a new high level and the charge for credit, like everything else, has risen sensationally throughout the world. New York city, temporarily at least, has become the greatest international money market, with nearly every nation offering it about the highest rates ever known for short and long term accommodations. These needs are imperative, most of them relating to reconstruction requirements essential for industrial restoration of war wrecked area.

Fixing the Rate.

In such a situation it was necessary for even a railroad of such high credit as the Pennsylvania enjoys to offer its bonds at a rate which would command instant support. By offering investors a seven per cent return, the Pennsylvania virtually has forced every other railroad in the country to adopt that or a higher rate, and made it necessary for borrowers of lesser credit to bid even higher for the accommodation they require. That great loan offering, therefore, will have broad influence on the investment markets of 1920, as this year's new financing has only just begun. The bond market is about three months late, owing to the extraordinary strain on credit, emphasized most of all by the virtual breakdown of the commercial paper market. The result has been that demands have had to be financed by banks in which the borrowers had deposits, which has complicated greatly the credit situation and given large banks in this and other cities all they could do to respond to requirements of their own customers, who, in normal times, would obtain funds through sales of paper to thousands of interior banks which make up the commercial paper market of the United States.

Great Bond Market.

Notwithstanding that strain on credits and complications following world pressure for New York city loans, the potential strength of the American bond market was never greater than it is to-day. The five Liberty loan campaigns taught 20,000,000 new investors what a bond looked like. Before the war not more than 400,000 people in the United States—less than one-half of one per cent of its population—had ever purchased a bond. But the house to house canvasses of the war loan period changed all this and placed one or more bonds in the hands of one out of every five American citizens. The investing power of that great constituency has not been fully tested, as circumstances have not been favorable to launching a broad bond selling campaign since the Victory loan canvass was completed, which is why the seven per cent bid by the premier railroad of the country marks a new era in after war financing and prepares the way for a genuine revival of bond trading.

The output of new loans will be large, because even such prosperous enterprises as the Standard Oil Company of New Jersey find difficulty in providing added facilities which their expanding business calls for. Some of those properties are doing more business than they ever did in other peace times. Others are operating as near a capacity basis as their limited labor supply will permit. Big and little are using proportionately more money in their business than they ever did for the same volume of orders owing to the unusual outlays for materials, wages and everyday expenses.

Railroad Loans.

According to experts familiar with the problem, railroads will need $800,000,000 to provide improvements, equipment and necessary outlays this year and fully $1,000,000,000 annually for the succeeding three years. As the $300,000,000 revolving fund provided by the transportation act has been pretty well exhausted the financing of new equipment purchases, new construction, terminal enlargement and other improvements is a problem for railroad owners now managing their property to solve in their own way. Those demands are imperative and must be cared for soon or later, as railroads are doing a larger business than is justified by present facilities. Those requirements will entail heavy borrowings and make it necessary for roads to float large loans as soon as possible. Negotiations to that end are under way, and now that the movement has started indications are that the investing public will have many attractive proposals made to them during the coming three months. If all those loans go through this will be a record year for railroad financing, which, with industrial underwritings, are likely to aggregate a formidable sum for even a reconstruction year. Taking into account railroad and industrial corporation requirements, borrowers could easily use $1,200,000,000 of new capital if available.

Government Borrowings.

The high bid for capital by the Pennsylvania Railroad gives new interest to the question as to what price the Government ought to pay for the accommodation it gets from the banks. Less than $200,000,000 of a recent issue of Treasury certificates of indebtedness offered on a 4½ per cent. basis were sold. There is small likelihood that the Government will be able to get the banks to take many of the new certificates on even a 4¾ per cent. basis. Representative Mondell said the other day that it might be necessary for the Treasury to pay 6 per cent. for its temporary borrowings, against 3 per cent. in 1917. He added that further Government bond issues were unthinkable, as they "could only be issued at greatly increased interest rates, at the cost of considerable reduction in value of outstanding Government securities, with the greater danger of wrecking the specie basis of our currency and the certainty of increasing the price of commodities and further enhancing the cost of living." Indications are that the Government in seeking temporary loans from the banks will have to increase its bid for accommodation like any other borrower in an unfavorable money market.

Government Curtailment.

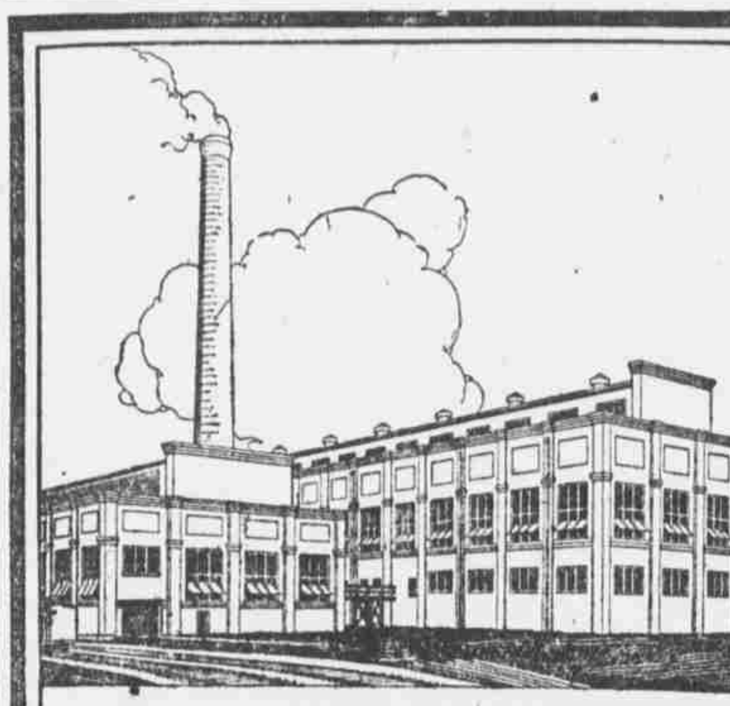
The crying need is for the Government to reduce expenditures forthwith, because unless done commodity prices will advance further and living conditions become more burdensome for the average family. R. McKenna, chairman of the London Joint City and Midland Bank, Ltd., the largest bank in the world, told its shareholders the other day that until Great Britain should bring its annual expenses within compass of its revenue the rise in prices would continue. He added:

"In State as in domestic finance we must learn to make both ends meet, and the case is not in the least bettered if we only balance our accounts by selling capital stock and placing the proceeds to the credit of our revenue account. The expenditure of the Government is tantamount to the consumption of the quantity of commodities which money would buy, and this must not exceed the amount of commodities the consumption of which the community are compelled to deny themselves by reason of the taxes they have to pay. If it does, we run the risk, as is now the fact, that our consumption may exceed our production. This is not a plea for additional taxation; far from it.' Our existing taxation, which I believe is higher than in any other country in the world, is already dangerously near the point at which thrift, business enterprise and needful capital development become seriously impaired. But it is a plea for economy in expenditure."

Enlarging Output.

All the world is attempting to enlarge its industrial output, and as the United States has long been the leader in quantity production it ought to be easy for us to increase our savings account and invest whatever surplus we have in the very attractive securities coming into the market. This country is making headway and the striking developments of the last week and the reappearance of Wall street banks as lenders of time money after an eighteen months' interval, in which such loans scarcely were made by New York lending institutions except for the account of the interior banks, the investment market may be said to have taken a new lease of life.

Indications are that we shall soon have the best regular bond market that this country has seen for five years. The American people have an immense sum of uninvested savings at their disposal, and notwithstanding the fact that they are making large outlays for new dwellings and business structures they will become heavily interested in the extraordinary bond market developing.



London—The Bank of England and the Royal Exchange

DIVIDENDS AND INTEREST.

The International Nickel Co.

A quarterly dividend of one and one-half per cent. on the Preferred Stock has been declared this day, payable May 1st, 1920, to the Preferred Stockholders of record at the close of business, April 16, 1920.

JAMES L. ASHLEY, Sec'y and Treasurer.

New York, April 5, 1920.

THE PITTSBURGH & WEST VIRGINIA RAILWAY COMPANY.

PREFERRED DIVIDEND NO. 12.

The Board of Directors has declared a dividend of one and one-half (1½) per cent. on the Preferred Stock of the Company for the quarter ended March 31, 1920, payable May 31, 1920, to Stockholders of record at the close of business on May 5, 1920.

H. C. MOORE, Secretary.

Pittsburgh, March 27, 1920.

The Midwest Refining Company.

Regular dividend No. 22 of $1.00 per share and extra dividend No. 5 of 50 cents per share have been declared, payable May 1, 1920, to stockholders of record at the close of business April 15, 1920. The transfer books do not close.

CLARENCE E. TITUS, Secretary.

Denver, Colorado.